

October 17, 2006

The Health Benefits Committee met on Tuesday, October 17, 2006, in Redding, California.

The meeting was called to order at 9:30 a.m. with the following members present:

George Diehr, Chair
Priya Mathur, Vice Chair
James Zerio representing Philip Angelides
Marjorie Berte
Rob Feckner
David Gilb
Tony Oliveira
Charles Valdes
Joy Higa representing Steve Westly

Other Board members present:

Mike Quevedo

AGENDA ITEM 2 – APPROVAL OF THE SEPTEMBER 12, 2006, HEALTH BENEFITS COMMITTEE MEETING MINUTES

The September 12, 2006, Health Benefits Committee meeting minutes were approved as presented.

AGENDA ITEM 3 – BLUE SHIELD OF CALIFORNIA: REGIONAL COUNCIL UPDATE

Terri Westbrook, Assistant Executive Officer, Health Benefits Branch, introduced Kathlyn Mead from Blue Shield of California to the Committee. As an information item, Ms. Mead presented the Blue Shield of California Regional Council Update to the Committee. To date, Blue Shield and CalPERS have completed two of eleven Regional Council Forums in Colusa and Lake Counties. Kathlyn shared the upcoming schedule for Regional Council Forums and their follow-up meetings.

AGENDA ITEM 4 – REVISED STATEMENT OF INVESTMENT POLICY FOR SELF-FUNDED HEALTH PLANS

As an information item, Richard Krolak, Chief, Office of Health Plan Administration, presented the Revised Statement of Investment Policy for Self-Funded Health Plans to

the Committee. Health staff, working with the Investment staff, proposed changing the benchmark to a longer duration, which would allow the portfolio to be managed for a higher yield and total return. The new policy was approved by the Investment Policy Subcommittee on August 11, 2006, and by the Investment Committee on September 11, 2006, and then adopted by the CalPERS Board of Administration on September 13, 2006.

AGENDA ITEM 5 - MODIFICATIONS TO 2007 MEDICARE PART B PREMIUMS - MEANS TESTING

As an information item, Sandra Felderstein, Chief, Office of Health Policy and Program Support, presented the Modifications to 2007 Medicare Part B Premiums – Means Testing.

The federal government currently subsidizes 75 percent of the full standard Medicare Part B premium, which is \$354.00 in 2006, making the 25 percent beneficiary contribution \$88.50. Because all Medicare beneficiaries have traditionally paid the same portion of the full premium, their contribution is commonly referred to as the "Medicare premium."

The Medicare Modernization Act of 2003 (MMA) provides that beginning January 1, 2007, the federal government will begin income-relating, or "means testing," beneficiaries' contributions to the Medicare Part B premium, requiring those with incomes above a set threshold (adjusted annually) to pay greater portions of the premium. The Social Security Administration (SSA) will be mailing information to all Medicare beneficiaries giving them detailed information on the changes to the Part B premiums and advising them of their Part B premium contribution amount for 2007.

CalPERS will send all employers participating in the Health Benefits Program and all CalPERS state Medicare members a letter in November explaining the implications.

AGENDA ITEM 6 – MEDICARE PART D OPTIONS FOR 2008 – FIRST READING

As an information item, Sandra Felderstein, Chief, Office of Health Policy and Program Support, presented the first reading of the Medicare Part D Options for 2008 to the Committee. The second reading for this agenda item will be presented at the November 2006 Health Benefits Committee as an action item.

Mike Richard, CSEA Retired Division, spoke on this item.

AGENDA ITEM 7 – LONG-TERM CARE PROGRAM 2005 AND EARLIER POLICIES – PROPOSED MITIGATION PLAN – FIRST READING

As an information item, Richard Krolak, Chief, Office of Health Plan Administration, and Larry Jensen, Chief Auditor, Office of Audit Services, presented the first reading of the Long-Term Care Program 2005 and Earlier Policies – Proposed Mitigation Plan to the Committee. At the June 2006 meeting the of the Health Benefits Committee (Committee), Audit Services was assigned the responsibility to facilitate completion of a parallel valuation based on June 30, 2006, policies-in-force for the Long-Term Care Program (Program). The parallel valuation would be in addition to the valuation completed by United Health Actuarial Services (the Program's consulting actuary).

Draft 2006 valuation results from the program's consulting actuary and Mercer (the parallel valuation) were presented.

The Committee requested that United Health Actuarial Services, Inc. and Mercer Human Resource Consulting continue to work together with the intent of developing a joint recommendation for valuation and mitigation for the Long-Term Care Program. The second reading for this agenda item will be presented at the November 2006 Health Benefits Committee as an action item.

The following people spoke on this item:

Ann McWherter, RPEA
Earl Millard, CSEA Retired Division
Mike Richard, CSEA Retired Division
Milt Dobkin, CSU ERFA, California Faculty Association

AGENDA ITEM 8 – PROPOSED REGULATIONS: PREFUNDING PLAN FOR HEALTH CARE COVERAGE FOR ANNUITANTS

As an action item, Ken Marzion, Assistant Executive Officer, Actuarial and Employer Services, presented Proposed Regulations: Prefunding Plan for Health Care Coverage for Annuitants to the Committee. A copy of the proposed regulations was attached to the summary for the Board's consideration.

Neal Johnson, SEIU Local 1000, spoke on this item.

On **MOTION** by Priya Mathur, **SECONDED** and **CARRIED**, the Committee recommended the Board approve for publication the proposed amendments to regulations that clarify and make specific existing provisions in the Public Employees' Medical and Hospital Care Act (PEMHCA) concerning the Annuitants' Health Care Coverage Fund and the prefunding of health care coverage for annuitants.

Marjorie Berte ABSTAINED.

AGENDA ITEM 9 – PROPOSED HEALTH BENEFITS COMMITTEE CALENDAR FOR 2007

Ms. Westbrook presented the proposed Health Benefits Committee Calendar for 2007 to the Committee as an action item. The calendar was approved by the Committee.

AGENDA ITEM 10 – ASSISTANT EXECUTIVE OFFICER REPORT

Ms. Westbrook provided an update on the Partnership for Change. An agenda item on the Partnership for Change will be presented at the November 2006 Health Benefits Committee.

AGENDA ITEM 11 – PROPOSED AGENDA FOR NOVEMBER 14, 2006, HEALTH BENEFITS COMMITTEE MEETING

The proposed agenda for the November 14, 2006, Health Benefits Committee was accepted as presented.

AGENDA ITEM 12 – PUBLIC COMMENT

The Committee heard public comments by:
Neal Johnson, SEIU Local 1000
Tom Moore, California State Council of SEIU
Ann McWherter, RPEA
Bill Fox, CSEA Retired Division

The meeting was adjourned at 11:30 a.m.

The next meeting of the Committee is scheduled for November 14, 2006, following adjournment of the Benefits and Program Administration Committee.

FRED BUENROSTRO
Chief Executive Officer